



U.S. GENERAL SERVICES ADMINISTRATION
Office of Inspector General

NOV 12 2010

MEMORANDUM FOR MARTHA N. JOHNSON
ADMINISTRATOR (A)

ALISON L. DOONE
CHIEF FINANCIAL OFFICER (B)

FROM: BRIAN D. MILLER *Brian D. Miller*
INSPECTOR GENERAL (J)

SUBJECT: Audit of the General Services Administration's
Fiscal Year 2010 Financial Statements

The Office of the Inspector General (OIG) contracted with the independent public accounting firm of KPMG LLP (KPMG) to audit the financial statements of the General Services Administration (GSA) for the fiscal year ended September 30, 2010. The purpose of this audit was to provide a report on internal controls over financial reporting including safeguarding assets and compliance with laws and regulations. In addition, if necessary, the audit reports instances in which GSA's financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA). Attached is a copy of that report.

The contract with KPMG required that the audit be completed in accordance with the following guidance: U.S. generally accepted government auditing standards; Office of Management and Budget audit guidance; and the Government Accountability Office / Council of the Inspectors General on Integrity and Efficiency *Financial Audit Manual*. KPMG is responsible for the attached auditor's report dated November 10, 2010, and the conclusions expressed therein. The OIG does not express opinions on GSA's financial statements, and related internal controls. In addition, we do not opine as to whether GSA's financial management systems substantially comply with FFMIA, nor do we reach conclusions on compliance with laws and regulations.

In its audit, KPMG found:

- The financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles.
- There were no material weaknesses in internal controls over financial reporting.
- No instances in which the entity's financial management systems did not substantially comply with the requirements of FFMIA.

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However, KPMG identified the following significant matters:

- Weaknesses in the effectiveness of controls over GSA's budgetary accounts and transactions.
- Weaknesses relating to GSA's controls over the accounting for and reporting of general property and equipment.
- Weaknesses in the effectiveness of controls over GSA's accounting for and reporting of environmental liabilities.
- Weaknesses in controls over the revenue and expense recognition policies in the Federal Acquisition Services Fund.
- Weaknesses in general and application controls over financial management systems.

The Office of Inspector General appreciates the courtesies and cooperation extended to KPMG and to our audit staff during the audit. If you or your staff have any questions, please contact Theodore R. Stehney, Assistant Inspector General for Auditing at (202) 501-0374.

Attachments



KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report

Inspector General,
United States General Services Administration:

We have audited the consolidated totals in the accompanying consolidating balance sheet of the United States General Services Administration (GSA) as of September 30, 2010 and 2009, and the related consolidated totals on the accompanying consolidating statements of net cost and changes in net position, and the combined totals in the combining statement of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended. We have also audited the individual balance sheets of the Federal Buildings Fund (FBF) and the Acquisition Services Fund (ASF) (hereinafter referred to as the "Funds") as of September 30, 2010 and 2009 and the related individual statements of net cost and changes in net position, and combined statements of budgetary resources (hereinafter referred to as the Funds' "individual financial statements") for the years then ended.

The objective of our audits was to express opinions on the fair presentation of these consolidated financial statements and the Funds' individual financial statements. In connection with our fiscal year 2010 audit, we also considered GSA's internal control over financial reporting and tested GSA's compliance with certain provisions of applicable laws, regulations, and contracts that could have a direct and material effect on these consolidated financial statements and the Funds' individual financial statements.

Summary

As stated in our opinions on GSA's consolidated financial statements and the Funds' individual financial statements, we concluded that GSA's consolidated financial statements and the Funds' individual financial statements as of and for the years ended September 30, 2010 and 2009, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

Our consideration of internal control over financial reporting resulted in identifying certain deficiencies that we consider to be significant deficiencies, as defined in the Internal Control Over Financial Reporting section of this report, as follows:

- A. Controls over budgetary accounts and transactions
- B. Controls over accounting and reporting of general property and equipment
- C. Controls over accounting and reporting of environmental liabilities
- D. Controls over the revenue and expense recognition policies in the Federal Acquisition Services Fund
- E. General and application controls over financial management systems

We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined in the Internal Control over Financial Reporting section of this report.

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.



The results of our tests of compliance with certain provisions of laws, regulations, and contracts disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

The following sections discuss our opinions on GSA's consolidated financial statements and the Funds' individual financial statements; our consideration of GSA's internal control over financial reporting; our tests of GSA's compliance with certain provisions of applicable laws, regulations, and contracts; and management's and our responsibilities.

Opinions on the Financial Statements

We have audited the consolidated totals in the accompanying consolidating balance sheet of the United States General Services Administration as of September 30, 2010 and 2009, and the related consolidated totals on the accompanying consolidating statements of net cost and changes in net position, and combined totals in the combining statement of budgetary resources for the years then ended. We have also audited the individual balance sheets of the Funds as of September 30, 2010 and 2009 and the related individual statements of net cost and changes in net position, and combined statements of budgetary resources for the years then ended.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of GSA and the financial position of each of the Funds as of September 30, 2010 and 2009 and the consolidated and individual Funds' net costs, changes in net position, and budgetary resources for the years then ended, in conformity with U.S. generally accepted accounting principles.

The information in the Management's Discussion and Analysis section and the Required Supplementary Information in the Financial section of GSA's *2010 Agency Financial Report* is not a required part of the consolidated and Funds' individual financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the GSA's consolidated financial statements and the Funds' individual financial statements taken as a whole. The September 30, 2010 consolidating information in the Required Supplementary Information section of the of GSA's *2010 Agency Financial Report* is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, net costs, changes in net position, and budgetary resources of GSA's components individually. The September 30, 2010 consolidating information has been subjected to the auditing procedures applied in the audit of the GSA consolidated financial statements and the FBF individual financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the GSA consolidated financial statements and the Funds' individual financial statements taken as a whole. The information in the Other Accompanying Information section of GSA's *2010 Agency Financial Report* are presented for purposes of additional analysis and are not required as part of the consolidated and the Funds' individual financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.



Internal Control Over Financial Reporting

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses.

In our fiscal year 2010 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting described in Exhibit I that we consider to be significant deficiencies. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Exhibit II presents the status of the prior year significant deficiencies.

We noted certain additional matters that we have reported to management of GSA in a separate letter dated November 10, 2010.

Compliance and Other Matters

The results of our tests of compliance described in the Responsibilities section of this report, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

The results of our tests of FFMIA disclosed no instances in which GSA's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

Responsibilities

Management's Responsibilities. Management is responsible for the consolidated financial statements of GSA and the Funds' individual financial statements; establishing and maintaining effective internal control; and complying with laws, regulations, and contracts applicable to GSA.

Auditors' Responsibilities. Our responsibility is to express opinions on the fiscal years 2010 and 2009 consolidated financial statements of GSA and the Funds' individual financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated and the Funds' individual financial statements are free of material misstatement.



An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of GSA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated and the Funds' individual financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall consolidated and the Funds' individual financial statement presentation.

We believe that our audit provides a reasonable basis for our opinions.

In planning and performing our fiscal year 2010 audit, we considered GSA's internal control over financial reporting by obtaining an understanding of GSA's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements and the Funds' individual financial statements, but not for the purpose of expressing an opinion on the effectiveness of GSA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of GSA's internal control over financial reporting. We did not test all controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

As part of obtaining reasonable assurance about whether GSA's fiscal year 2010 consolidated financial statements and the Funds' individual financial statements are free of material misstatement, we performed tests of GSA's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts and the Funds' individual financial statements amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04 including the provisions referred to in Section 803(a) of FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to GSA. However, providing an opinion on compliance with laws, regulations, and contracts was not an objective of our audit and, accordingly, we do not express such an opinion.

GSA's responses to the findings identified in our audit are presented in Exhibit I. We did not audit GSA's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the GSA's management, GSA's Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 10, 2010

Independent Auditors' Report
Exhibit I – FY 2010 Significant Deficiencies

A. Controls over budgetary accounts and transactions

Budgetary accounts are a category of the general ledger accounts where transactions related to receipts, obligations, and disbursements of budgetary authority – the authority provided by law to incur financial obligations that will result in outlays – are recorded.

OMB Circular No. A-123, *Management's Responsibility for Internal Control*, sets forth requirements to develop control processes necessary to ensure that reliable and timely information is obtained, maintained, reported, and used for decision making. Additionally, OMB Circular No. A-127, *Federal Financial Systems*, provides a framework for Federal agencies to develop financial management systems that should generate reliable, timely, and consistent information necessary for meeting management's responsibilities, including the preparation of financial statements.

GSA policies require each of GSA's Services – Public Buildings Service (PBS) and Federal Acquisition Service (FAS) – to address the need to strengthen internal controls over budgetary reporting and to mitigate known weaknesses in the budgetary transaction level controls. In fiscal year 2010, GSA experienced a significant increase in its obligation transactions to meet the requirements of the American Recovery and Reinvestment Act of 2009 (Recovery Act), which required GSA to obligate approximately \$5 billion of the \$5.6 billion appropriated by September 30, 2010. Although GSA was able to meet this requirement, GSA needs to continue improving the effectiveness of controls over its accounting and business processes to ensure that budgetary transactions are properly recorded, processed, and summarized. Specifically, we noted the following internal control deficiencies in GSA's financial management systems and financial reporting processes, many of which were reported in the fiscal year 2009 *Internal Control over Financial Reporting* section of our Independent Auditors' Report.

In addition, GSA management's assessment of internal control reviews, performed as part of the OMB Circular No. A-123, Appendix A, indicated similar issues as those noted below.

1. Undelivered orders

Undelivered orders represent GSA's obligations that require the agency to make payments to the public or from one Government account to another. Under OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget* requirements, obligations incurred must conform to applicable provisions of law, and agencies must be able to support the amounts reported by appropriate documentary evidence as defined by 31 U.S.C. 1501.

Of the 309 PBS obligations selected for test work, we noted 66 instances where contracts and modifications to contracts (including de-obligations) were not properly monitored, recorded accurately or timely, or entered into the financial management system. Additionally, we noted GSA did not provide proper documentation to support nine obligations recorded in the financial management system and recorded eight obligations in the financial management system before the contracts or the appropriate construction phase option modifications were signed. Further, as reported in the previous year, GSA did not consistently include the delivery date or period of performance for 8 of the 309 contracts tested; increasing the risk that management will not be able to determine the validity of its undelivered orders.

In addition, GSA did not effectively review its obligations resulting in an understatement of \$21.5 million in ASF undelivered orders related to intra-fund orders placed between two of ASF's programs but not recorded accurately in the financial management system. As a result of our observations, GSA adjusted its undelivered orders balance.

Independent Auditors' Report
Exhibit I – FY 2010 Significant Deficiencies

As reported in the previous year, the lack of integrated financial and acquisition systems combined with the ineffective communication between the program office and the Budget/Financial Management Office within the regions continues to be the contributing factor for obligations not being accurately recorded in the financial management system. As a result, PBS Central Office management continued to rely on costly compensating processes and labor-intensive efforts to prepare reliable financial statements throughout the year and at fiscal year-end.

2. Recovery of prior years' obligations

Recovery of prior years' obligations represents cancellations or downward adjustments of obligations incurred in prior fiscal years. As reported in the previous year, changes to certain fields in the financial management system related to prior year obligation information – such as vendor codes – cause a recording of a recovery of prior years' obligations regardless whether the obligation was actually cancelled or adjusted downward. Of the 35 reversing entries tested for correcting invalid recoveries of prior years' obligations, 30 were the result of human error, and 5 were due to system error. This condition requires extensive manual reviews and adjustments to detect and correct errors, rather than preventing them.

Recommendations

We recommend that GSA management continue to implement the following recommendations to improve controls over the accounting for budgetary transactions:

a. Undelivered orders

1. Continue efforts to evaluate the need to implement system interfaces between the contracting system and the financial management system of record;
2. Until such interfaces are in place, continue monthly reconciliation efforts between the contracting system and the financial management system and ensure sufficient resources are available to perform the reconciliations in a timely and routine manner. In addition, establish procedures to require the regional offices to investigate and resolve variances identified in a timely and consistent manner;
3. Perform procedures to ensure all obligations are captured and accurately recorded in the financial management system;
4. Institute policies and procedures to ensure that a contract delivery date or period of performance is stated on all obligating documents before obligations are authorized, when appropriate.
5. Ensure contracting officers and regional procurement officers review contracts thoroughly to ensure that contract options are correctly exercised, applicable Notice-to-Proceed documents are issued timely, and the correct Guaranteed Maximum Price is established before the contract award is signed and the obligation is recorded in the financial management system;
6. Assess the root causes of ineffective internal controls at the process level as part of the overall control deficiency assessment to help design an effective internal control environment that is suitable to GSA business processes;
7. Continue to improve the efficiency of transaction-level, process-driven controls to avoid overreliance on high-level mitigating controls over budgetary accounts and transactions;
8. Improve communication with GSA's procurement operations and the regions to better facilitate response times by regions for award acceptance and receipt of goods and services; and

Independent Auditors' Report
Exhibit I – FY 2010 Significant Deficiencies

9. Provide additional training to reinforce existing policies and procedures, which require that all obligations be entered into financial management systems timely and prior to the receipt of any goods and/or services by GSA.

b. Recovery of prior years' obligations

1. GSA needs to train users to prevent user errors, which account for the majority of the errors, and to continue to rely on its periodic reviews of the recovery of prior year obligation balances to ensure that balances reported in the financial statements are valid and accurate.

Management Response

Management concurs with these recommendations and will initiate appropriate corrective actions.

B. Controls over accounting and reporting of general property and equipment

GSA reports \$23.7 billion in property and equipment net of accumulated depreciation as of September 30, 2010. GSA needs to improve controls over general property and equipment to ensure that transactions are promptly recorded, properly classified, and accounted for in accordance with requirements outlined in OMB Circular No. A-123. In addition, GSA needs to improve controls over the fixed asset subsidiary ledger system in order to prepare timely and reliable financial reports in accordance with OMB Circular No. A-127.

Further, GSA management's assessment of internal controls, performed as part of the OMB Circular No. A-123, Appendix A, reviews indicated similar control weaknesses in GSA's general property and equipment, as follows:

1. Buildings

GSA did not consistently record property disposals when they occurred. When a building is sold, conveyed, or demolished, the regional offices do not always notify the Office of the Chief Financial Officer (OCFO) to properly record the asset disposal and to reduce the building value in the financial management system, accordingly. GSA did not record asset disposals for 7 of the 67 buildings tested, which prompted a management analysis of the subsidiary ledger resulting in the identification and correction of an overstatement of the buildings balance and related accumulated depreciation of \$73 million and \$70 million as of September 30, 2010, respectively. As a result of our observations, GSA adjusted its buildings and related accumulated depreciation balances.

2. Land

GSA needs to revise its accounting policies to ensure that the value of land is properly recorded, summarized, and disclosed in the financial statements, in accordance with applicable Federal accounting standards. GSA overstated the land balance by \$107 million to account for certain environmental cleanup cost estimates that should have been expensed in accordance with applicable Federal accounting standards, as outlined in Statements of Federal Financial Accounting Standard (SFFAS) No.6, *Accounting for Property, Plant, and Equipment, Section 4 – Cleanup Costs*.

3. Construction in Process (CIP)

GSA needs to continue improving the effectiveness of controls over the proper classification of projects that are deemed substantially complete. GSA did not consistently record transfers of substantially completed projects from CIP to the buildings balance in a timely manner for 7 of 57 CIP transfers to completed buildings transactions tested. Due to inconsistent application of PBS's guidance as to the definition of when a project is substantially complete, the size and complexity of

Independent Auditors' Report
Exhibit I – FY 2010 Significant Deficiencies

GSA's construction projects combined with control weaknesses in the fixed assets subsidiary ledger and the manually intensive process of determining and documenting substantial completion dates, there is an increased risk that asset transfers may not be recorded to the general ledger in a timely manner, which could also lead to misstatements in depreciation expense.

GSA capitalizes all cleanup costs related to abatement, remediation, and/or disposal of hazardous waste associated with renovation projects. In accordance with applicable Federal accounting standards these environmental cleanup costs should have been expensed. This condition caused an overstatement of the CIP balance of \$63 million, as of September 30, 2010. If not corrected, as GSA incurs costs for renovation projects under the Recovery Act in future years, there is an increased likelihood that the amount of cleanup costs for hazardous waste incurred as part of such renovation projects will become significant, thereby increasing the risk of significant misstatements in the CIP, building, and operating expense balances.

4. Fixed assets subsidiary ledger

In fiscal year 2009, GSA implemented a fixed asset module in its financial management system to better track property transactions and to accommodate multiple substantial completion dates for the more complex multi-asset construction projects. However, front-end system edit checks that will prevent an asset from being posted to a different property category in the fixed asset subsidiary ledger and in the general ledger were not developed and enabled, resulting in misclassifications in the different property categories and requiring management to maintain a separate subsidiary ledger, as well as prepare extensive manual reviews and adjustments for detecting and correcting property misclassification errors, rather than preventing them.

Recommendations

We recommend that GSA management implement the following recommendations to improve controls over the accounting for general property and equipment:

a. Buildings

1. Develop policies and procedures to ensure that the property listed in the fixed asset subsidiary ledger is accurate;
2. Ensure policies and procedures for reporting asset disposal or conveyance are adhered to across GSA Regional Offices;
3. Develop policies and procedures to improve communications between Central Office and the regional portfolio managers regarding asset disposals or conveyance to ensure all parties have an understanding of the documents and notifications needed for the OCFO to record the asset disposals in a timely manner; and
4. Develop and deliver training on an ongoing basis to all portfolio managers regarding the reporting of real property disposal or conveyance to ensure that all of the appropriate requirements are fulfilled and consistently recorded in accordance with GSA policies and procedures.

b. Land

1. Evaluate the posting logic over the accounting entries related to environmental liabilities affecting property to ensure the land balance remains properly stated in accordance with applicable Federal accounting standards.

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c. Construction in Process

1. Evaluate the accounting policies to properly track and account for cleanup costs of hazardous waste incurred during renovation projects in accordance with applicable Federal accounting standards. Such review should include policies and procedures to determine the type of cleanup cost related to hazardous waste that, by its definition, will not extend the useful life of an asset or improve its capacity;
2. Continue current initiatives to strengthen internal controls over proper classification of costs associated with projects and ensure proper data entry and timely transfer of costs between the construction in process and building accounts;
3. Continue efforts to communicate the definition of “substantial completion dates” to Regional Offices; and
4. Central Office continue its reconciliation efforts to review the validity of substantial completion dates entered in the applicable feeder systems and the fixed assets subsidiary system to ensure that substantially completed CIP projects are transferred to the appropriate asset account in a timely manner.

d. Fixed assets subsidiary ledger

1. Develop and enable front-end system edit checks that will prevent an asset from being posted to a different property category in the fixed asset subsidiary ledger and in the general ledger; and
2. Until the different property categories are properly captured in the fixed assets subsidiary ledger, GSA needs to continue to perform periodic reconciliations of the general property and equipment classifications to ensure that property balances reported in the financial statements are valid and accurate.

Management Response

Management concurs with these recommendations and will initiate appropriate corrective actions.

C. Controls over accounting and reporting of environmental liabilities

GSA manages over 1,500 owned properties with an average age of 46 years, including 298 buildings considered heritage assets. Certain properties contain environmental hazards that will ultimately need to be removed and/or require containment mechanisms to prevent health risks to the public. SFFAS 5, *Accounting for Liabilities of the Federal Government*, SFFAS 6, *Accounting for Property, Plant and Equipment* and Technical Release 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*, issued by the Federal Accounting Standards Advisory Board, set forth the requirements and guidance for accounting and reporting environmental liabilities. GSA needs to improve the effectiveness of controls over accounting and reporting environmental liabilities.

GSA has not established effective policies and procedures to routinely and consistently identify and forward information relating to environmental issues to the appropriate offices to ensure the completeness of the environmental liability. GSA was unable to provide consistent documentation supporting its due care process for evaluating the likely presence of environmental contamination or completed the documentation supporting the due care process after the information was requested. Although GSA has developed environmental liability guidance, such guidance has not been properly communicated to the Regional Offices and it does not provide enough information for the Regional Offices to clearly determine, document, and communicate environmental liabilities. As a result of our observations, GSA performed additional analysis to ensure the environmental liability balance was not significantly misstated.

Independent Auditors' Report
Exhibit I – FY 2010 Significant Deficiencies

Recommendations

We recommend that GSA management perform a comprehensive analysis of the root causes of ineffective controls over the accounting and reporting of environmental liabilities as part of the overall control deficiency assessment to help design an effective internal control environment over environmental liabilities that is suitable for GSA business processes. Specifically;

1. Update and enforce the current environmental liabilities guidance to include a consistent approach for performing and documenting the due care process, including how often a property pre-screening should be performed, and what constitutes adequate documentation to support the due care process;
2. Develop policies and procedures to improve communications between Central Office and the Regional environmental managers and engineers regarding environmental issues to ensure all parties have an understanding of the reporting requirements and the status of each environmental remediation site and any actions taken to remediate the site;
3. Develop policies and procedures to determine what constitutes adequate documentation to support the environmental cleanup estimates recorded in the financial management system. In addition, Regional environmental managers should maintain the supporting documentation for their respective sites and such documentation should be readily available upon request; and
4. Develop and deliver training on an ongoing basis to all Regional environmental managers and engineers regarding the financial reporting requirements of environmental liabilities.

Management Response

Management concurs with these recommendations and will initiate appropriate corrective actions.

D. Controls over the revenue and expense recognition policies in the Federal Acquisition Services Fund

The Federal Acquisition Service (FAS) is the lead organization for procurement of products and services, other than real property, for the Federal government. As of September 30, 2010, FAS reports \$9.4 and \$9.2 billion in revenues and expenses, respectively.

GSA needs to improve controls over the accounting policies and procedures over the recognition of revenues and expenses for portions of two of the lines of business administered by FAS, as required by SFFAS No. 7, *Accounting for Revenues and Other Financing Sources* and SFFAS No. 1, *Accounting for Selected Assets and Liabilities*, issued by the Federal Accounting Standards Advisory Board, respectively. Specifically, GSA did not recognize revenues when goods or vehicles were provided to the customer agency and recognized expenses before goods or vehicles were received from the supplier. This deficiency affected the individual financial statements of the ASF. If not corrected, as the volume and complexity of transactions processed by FAS continue to increase in the future, there is an increased risk that the individual financial statements of the ASF could be significantly misstated. GSA prepared an analysis at year-end to assess the effect of not recognizing revenues and expenses in accordance with Federal accounting standards and determined the amounts were immaterial.

Recommendations

We recommend that GSA management implement the following recommendations to improve controls over the revenue and expense recognition policies in the Federal Acquisition Fund. Specifically,

1. Perform a comprehensive analysis of the current accounting policies used to recognize revenues and expenses incurred in the FAS lines of business affected to ensure that those transactions are recorded in accordance with applicable Federal accounting standards;

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Exhibit I – FY 2010 Significant Deficiencies

2. Develop monitoring controls to ensure that revenue and expense balances, in the FAS lines of business affected, accurately reflect the proper matching of revenues and expenses under current Federal accounting standards; and
3. As part of the modernization of GSA's financial systems, assess the need to adjust or implement automated application controls to ensure that the corresponding FAS feeder systems have the capability to capture all necessary data to report financial transactions in accordance with Federal accounting standards.

Management Response

Management concurs with these recommendations and will initiate appropriate corrective actions.

E. General and application controls over financial management systems

GSA did not have adequate information technology controls to protect its financial management systems as required by OMB Circular No. A-130, *Management of Federal Information Resources*. These conditions could affect GSA's ability to prevent and detect unauthorized changes to financial information, control electronic access to sensitive information, and protect its information resources. During fiscal year 2010, we continued to note improvements in GSA applications and general controls. GSA put in place a corrective action plan to address the pervasive weaknesses identified in prior years' audit findings from an agency-wide root-cause approach. However, GSA needs to continue improving the security and general controls over its financial information systems, as discussed below:

1. Access controls

Access controls protect computer resources from unauthorized modifications, disclosures, and loss. However, of the 13 systems tested, GSA did not fully establish controls to prevent and detect unauthorized access for 5 systems; and did not consistently ensure accounts for separated users are removed in a timely manner and inactive accounts were disabled for 4 systems. In addition, GSA did not implement configuration settings to its most restrictive settings to protect systems and data for nine systems. Furthermore, GSA does not have a process in place to develop and maintain a comprehensive inventory of systems; and did not maintain a unified and updated listing of all of the roles for the general ledger and the specific rights and privileges assigned to a user. Finally, GSA did not fully establish monitoring controls over application and system activity logs and violation reports of user actions for six systems.

2. Segregation of responsibilities

Lack of controls to prevent the assignment of access to incompatible functions within and between systems exposes GSA to the risk that certain users may be assigned the ability to perform multiple critical system transactions. GSA did not periodically review segregation of responsibilities to ensure conflicting access rights are not granted for three systems. Furthermore, GSA did not consistently ensure users' access was restricted from performing incompatible functions for one system.

Independent Auditors' Report
Exhibit I – FY 2010 Significant Deficiencies

Recommendations

We recommend that GSA management continue to improve controls over its financial information systems to ensure adequate security and protection of the information systems, as follows:

1. Develop and implement a process to review and document the review of audit logs related to financial system access and processing;
2. Improve upon existing procedures to define events to be monitored over application and system activity logs and violation reports of user actions;
3. Ensure policies to approve and remove access are consistently adhered to across the information systems;
4. Ensure policies to recertify users are consistently adhered to across information systems; and
5. Maintain a unified updated listing of all of the roles for the general ledger and the specific rights and privileges assigned to a user.

Management Response

Management concurs with these recommendations and will initiate appropriate corrective actions.

Independent Auditors' Report
Exhibit II – Status of Prior Year Findings

Status of GSA's Prior Year Findings		
Report	Significant Deficiency	Status
Fiscal Year 2009	A. Controls over budgetary accounts and transactions	This condition has been partially resolved in fiscal year 2010. See finding A.
Fiscal Year 2009	B. Controls over accounting and reporting of non-cancellable agreements	This condition has been resolved in fiscal year 2010. Remaining matters have been communicated in a separate letter to management.
Fiscal Year 2009	C. Controls over financial reporting	This condition has been resolved in fiscal year 2010.
Fiscal Year 2009	D. General and application controls over financial management systems	This condition has been partially resolved in fiscal year 2010. See finding E.